

Message Text

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SUBJECT: LA MALFA CALLS ON GOVERNMENT, POLITICAL PARTIES AND
UNIONS TO COOPERATE ON ECONOMIC RECOVERY AND
ECONOMIC REFORM

REF: ROME 11528

1. /SUMMARY/. DEPUTY PRIME MINISTER LA MALFA HAS SENT PUBLIC
LETTER TO PRIME MINISTER MORO SUGGESTING THAT, NOW THAT
SHORT-TERM ANTI-RECESSION PROGRAM HAS BEEN PUT INTO EFFECT,
GOVERNMENT, UNIONS AND POLITICANS COULD WORK TOGETHER
TOWARD MORE BASIC STRUCTURAL ECONOMIC REFORMS. HE CAUTIONS
AGAINST IMPOSING EVER-INCREASING FINANCIAL BURDENS ON
BUSINESS AND ON PUBLIC SECTOR AND URGES UNIONS TO ADOPT
MODERATE WAGE DEMAND POLICIES IN LINE WITH CURRENT RATES OF
ECONOMIC GROWTH AND OF INCREASES IN WORKER PRODUCTIVITY.
/END SUMMARY/.

2. ON AUGUST 27 ITALIAN PRESS PUBLISHED TEXT OF LETTER TO
PRIME MINISTER MORO FROM UGO LA MALFA, DEPUTY PRIME MINISTER,
WHO WAS RESPONSIBLE FOR COORDINATING RECENT ANTI-RECESSION
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PROGRAM (REFTEL). LA MALFA SAYS THAT, WITH IMPLEMENTATION

OF EMERGENCY ANTI-RECESSION MEASURES UNDER DECREE LAW, ONE PHASE OF GOI ECONOMIC POLICY IS OVER, AND NEW PHASE SHOULD BEGIN TACKLING LONG-TERM STRUCTURAL ECONOMIC PROBLEMS.

3. LA MFALFA REFERS FAVORABLY TO PARTIAL ASSUMPTION BY GOI OF THE COST TO BUSINESS OF FAMILY ALLOWANCES AS EMBODIED IN ANTI-RECESSION PROGRAM (PARA 6 REFTTEL) BUT STRESSES THAT EXTENTION OF THIS TECHNIQUE WOULD BE UNDESIRABLE SINCE IT WOULD SIMPLY TRANSFER FINANCIAL BURDEN FROM BUSINESS SECTOR TO PUBLIC SECTOR, WHICH IS ALREADY IN DIFFICULT FINANCIAL STRAITS.

4. LA MALFA ALSO CRITICIZES BUSINESS, PUBLIC SECTOR AND ENTIRE COUNTRY FOR LIVING OFF ITS ACCUMULATED CAPITAL IN ORDER TO INCREASE CONSUMPTION, INSTEAD OF CREATING ADDITIONAL GOODS AND SERVICES THROUGH INCREASED PRODUCTIVE INVESTMENT. HE ADDS THAT, EVEN IN ECONOMIC SECTORS WHICH ARE IN NOTORIOUS DEFICIT, WAGE RATE INCREASES ARE AUTOMATICALLY SOUGHT WHEN CONTRACTS FALL DUE, IN ADDITION TO COST OF LIVING BENEFITS, AS IF THESE SECTORS WERE IN HEALTHY CONDITION. THIS TENDENCY TO SEEK WAGE RATE INCREASES WITHOUT REGARD TO FINANCIAL POSITION OF SECTOR OR TO OVERALL ECONOMIC CONDITION OF COUNTRY, HE BELIEVES, IS ONE OF MOST SINGULAR ASPECTS OF CURRENT ITALIAN ECONOMIC AND SOCIAL SYSTEM.

5. LA MALFA CALLS ATTENTION TO IMPORTANCE OF NEW WAGE CONTRACT NEGOTIATIONS IN IMPORTANT SECTORS WHICH WILL BEGIN IN THE FALL, NOTING THAT THESE HAVE ALREADY BEEN ANTICIPATED BY SERIES OF STRIKES IN SEVERAL SECTORS BY AUTONOMOUS UNIONS FOR SELF-SERVING PURPOSES. HE ASKS WHETHER GOI WOULD BE HELPED BY POLITICAL PARTIES AND BY LABOR UNIONS TO RESTORE ECONOMIC AND FINANCIAL EQUILIBRIUM IN PUBLIC AND PRIVATE SECTORS AND TO ESTABLISH MORE NORMAL RELATIONSHIP AMONG PROFITS AND WAGES IN ORDER TO ENCOURAGE NEW INVESTMENT NEEDED TO EXPAND EMPLOYMENT. HE IS ENCOURAGED THAT UNIONS HAVE RECENTLY SHOWN SIGNS OF BEING QUITE RESPONSIBLE IN THIS RESPECT.

6. LA MALFA CALLS ATTENTION TO POSITIVE SIGNS IN ITALIAN ECONOMY SUCH AS DECELERATION IN RATE OF INFLATION, REDUCTION

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IN BALANCE OF PAYMENTS DEFICIT, AND PROMPT INTRODUCTION OF ANTI-RECESSION PACKAGE, BUT POINTS OUT THAT THESE GAINS WOULD BE ERODED IF WAGE CONTRACT NEGOTIATIONS RESULT IN FURTHER WORSENING IN FINANCIAL POSITION OF PRIVATE PRODUCTIVE SECTOR AND OF PUBLIC SECTOR. ON OTHER HAND, PROGRESS COULD BE MADE THROUGH COOPERATION OF GOVERNMENT, POLITICAL PARTIES AND LABOR UNIONS.

7. /COMMENT/. LA MALFA ONCE AGAIN CALLS ATTENTION TO STRUCTURAL ECONOMIC ISSUES FACING ITALY SUCH AS PARTICULARLY ACUTE PROBLEMS OF PUBLIC SECTOR DEFICITS AND OF EXCESSIVE WAGE RATE INCREASES, WHICH HAVE BEEN HIS CONSTANT THEME IN RECENT YEARS. PUBLICATION OF LETTER TO MORO IS CLEARLY MEANT TO PROVIDE CAUTIONARY NOTE ON EVE OF CRITICAL FALL WAGE CONTRACT NEGOTIATIONS IN CONTEXT OF WORST RECESSION IN ITALY IN POST-WAR PERIOD. NATIONAL LABOR CONFEDERATIONS ARE, IN FACT, ALREADY PLACING RELATIVELY GREATER STRESS ON PROTECTION OF EMPLOYMENT LEVELS THAN ON FURTHER WAGE RATE INCREASES. HOWEVER, THERE MAY WELL BE PRESSURE FROM GRASS ROOTS TO NEGOTIATE RELATIVELY HIGH WAGE INCREASES IN FACE OF STILL HIGH RATE OF INFLATION, EVEN IF EFFECT IS TO REDUCE PROSPECTS FOR INVESTMENT AND FOR CREATION OF NEW JOBS. LA MALFA'S CALL FOR RENEWED EMPHASIS ON ATTACKING STRUCTURAL PROBLEMS IS TIMELY AND SEEMS TO HAVE FOUND SYMPATHETIC EAR IN VARIOUS QUARTERS, INCLUDING POLITICAL PARTIES AND LABOR UNIONS.VOLPE

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